Nova Scotia Department of Finance Annual Accountability Report for the Fiscal Year 2010-2011

Table of Contents

1.0 Accountability Statement 3

2.0 Message from the Minister.....4

3.0 Financial results.....5

4.0 Measuring Our Performance..... 6-22

1.0 Accountability Statement

The Accountability Report of the Department of Finance for the year ended March 31, 2011 is prepared pursuant to the *Finance Act* and government policies and guidelines. These authorities require the reporting of outcomes against the Department of Finance Statement of Mandate for the fiscal year 2010-2011. The reporting of the Department of Finance outcomes necessarily includes estimates, judgments and opinions by Department of Finance management.

We acknowledge that this Accountability Report is the responsibility of the Department of Finance management. The report is, to the extent possible, a complete and accurate representation of outcomes relative to the goals and priorities set out in the Department of Finance 2010-2011 Statement of Mandate.

Honourable Graham Steele
Minister of Finance

Margaret MacDonald
Deputy Minister of Finance

2.0 Message from the Minister

I am pleased to present the 2010-2011 Accountability Report for the Department of Finance.

The annual Accountability Report is an opportunity to demonstrate activities and accomplishments across key policy and program areas and to highlight performance in the day-to-day activities the Department of Finance undertakes to the help the Government of Nova Scotia operate efficiently and effectively.

In addition, 2010-2011 was year two in our four-year plan to get Nova Scotia back to balance. To inform our work of moving our province's finances toward a sustainable path, the department undertook another significant consultation tour throughout Nova Scotia. The government, with the Department of Finance as steward, is on track to get Nova Scotia back to balance by 2013-2014.

The Department made great strides in a number of priority areas in 2010-2011. Some of the achievements I wish to highlight include:

- Pension reforms introduced in Budget 2010-2011 have helped to return the Nova Scotia Superannuation Plan to a fully funded position.
- The Government Accounting division continues to increase automatic payment production in areas such as income assistance and labour market programs.
- Commitment to performance in financial reporting means that for the sixth year in a row, the department exceeded the legislated September 30th deadline to release Public Accounts.
- The ability to achieve a debt-to-GDP at 35.7 per cent is better performance than forecasted and is evidence that the Government's fiscal plan is helping to keep Nova Scotia on track to recovery following the global economic recession.

These and many other achievements are a testament to the hard work of department staff. I would like to take this opportunity to thank each and every one of them for their on-going dedication and service to government and to the people of Nova Scotia.

3.0 Financial Results

Department of Finance			
	2010-2011 Estimate	2010-2011 Actual	Variance
Program & Service Area			
Program Expenses:			
Senior Management	4,244	3,801	(443)
Associate Deputy Minister and Controller (note 1)	23,994	22,114	(1,880)
Policy and Planning	1,047	848	(199)
Corporate Services Unit	1,425	1,348	(77)
Fiscal and Economic Policy	3,160	2,965	(195)
Total Program Expenses (note 2)	33,870	31,076	(2,794)
Additional Information:			
Fees and Other Charges	(36)	(27)	(9)
Ordinary Recoveries	(3,379)	(3,612)	233
TCA Purchase Requirements	12,316	12,242	(74)
Provincial Funded Staff (FTEs) Net	243	209	(34)

(in thousands)

Notes: Significant Variance Explanations: 210-2011 Estimate to 2010-2011 Actual

1. Divisional expenses were $1.9 million under budget due to savings from staff vacancies and amortization savings.

2. Overall, departmental expenses were $2.8 million under budget. This was primarily due to savings from staff vacancies and amortization savings from changes in the estimated ready-for-use dates for 2010-11 Tangible Capital Asset projects.

4.0 Measuring Our Performance

Measure: Net debt to GDP

What does the measure tell us?

Net debt as a percentage of GDP is a widely-used indicator of the fiscal sustainability and flexibility of the province. The lower the ratio, the better for the citizens of Nova Scotia. A declining ratio indicates that the net debt of the province is declining relative to the size of the overall provincial economy.

Note: The Nominal Gross Domestic Product used in this measure is revised annually for the current year and up to four previous years. This results in some fluctuation in the ratio due to restatements in the GDP numbers by Statistics Canada.

Where are we now?

The target for 2010-2011, as stated in the department's 2010-2011 Statement of Mandate, was 40 percent.

The 2010-2011 provincial surplus enabled government to reduce net debt by $217.8 million, contributing to a better-than-expected year-end result for this measure.

As of March 31, 2011, the projected net debt to GDP ratio stood at 35.7 per cent. This represents a decrease from the ratio of 38.1 per cent as at March 31, 2010

Where do we want to go in the future?

Because this measure is an indicator of the fiscal health of the province, the on-going goal is to lower this ratio.

Measure: Credit Spread relative to Ontario

What does the measure tell us?

The relative cost of borrowing for the Government of Nova Scotia as compared to the Government of Ontario's cost of borrowing. This measure should, over time, reflect the risk the markets associate with the bonds issued by both provinces to finance their respective provincial debts.

Where are we now?

The 2010-2011 and long-term target, as stated in the department's 2010-2011 Statement of Mandate, was "nil", or "rates equal to Ontario".

We can currently borrow at a cost (or credit spread) of +3 basis points (bps) for a ten-year borrowing, and +6 bps for a 30-year borrowing.

Where do we want to go?

Over the short-term, it is difficult to identify a realistic goal relative to Ontario's credit spread, given current uncertainty in financial markets. Over the medium to long-term, the government's goal remains to achieve a cost of funds similar to Ontario.

Measure: Credit ratings by major rating agencies

What does the measure tell us?

A credit rating is an independent evaluation of a borrower's ability and willingness to pay interest and to repay principal. Rating firms provide investors with these measures of the credit quality of bonds of other financial instruments. A credit rating indirectly affects the borrower's debt servicing costs and the investor's expected rate of return, since an investor will demand a higher return on a more risky, lower rated security.

Where are we now?

The 2010-2011 target, as stated in the Department's 2010-2011 Statement of Mandate, was "maintain rating". Ratings listed in the 2010-2011 Statement of Mandate, as of November 2009, were as follows:

- DBRS: A
- S&P: A+
- Moody's: A1

As of March 31, 2011, The Province's ratings were as follows:

- DBRS: A
- S&P: A+
- Moody's Aa2 (this represents an upgrade, re, from A1)

Where do we want to go?

The long-term goal is to be rated double A by all three of the major rating agencies.

Measure: Unqualified and timely release of consolidated financial statements

What does the measure tell us?

This measure illustrates the department's commitment to timely financial reporting and meeting the legislative requirement to release the Public Accounts by September 30th.

Where are we now?

The 2010-2011 target, as stated in the department's 2010-2011 Statement of Mandate, was a release date on or before September 30th.

We continue to achieve this measure. All three volumes of Public Accounts for 2009-10 were released on July 29, 2010, having been reviewed by the Auditor General and receiving an unqualified audit.

Where do we want to go?

Continue to release unqualified audited Public Accounts by the legislated final date for reporting.

Measure: Sustainable Pension Plans

What does the measure tell us?

A pension plan's funded ratio is equal to assets divided by liabilities, expressed as a percentage. A funded ratio of 100 per cent means that a plan is fully funded: the fund's assets are sufficient to cover liabilities, based on current market values and actuarial assumptions. If liabilities are greater than assets, then a plan has an unfunded liability. A surplus is equal to the plan's assets less its liabilities.

Where are we now?

The 2010-2011 target, as stated in the Department's 2010-2011 Statement of Mandate, was "improve funded ratios".

The Government of Nova Scotia introduced changes to the Public Service Superannuation Act effective April 6, 2010 to restore the financial health of the Public Service Superannuation Plan.

Prior to these changes, the rate of growth of benefit payments was projected to outstrip growth in contributions and investment income, resulting in a steady decline in the funded health of the Plan to dangerously low levels. At December 31, 2009, the Plan's unfunded liability was $1.5 billion, with a funded ratio of only 69%. Over the next 30 years the Plan's funded ratio was projected to diminish to approximately 30%. Ultimately, changes were required to secure the financial future of the Plan.

After careful consideration, it was determined that indexing of pension benefits should be dependent upon the health of the Plan. During a five year transition period that began January 1, 2011, indexing is guaranteed at 1.25% for each year.

In the future, there will be a comprehensive review of indexing and contribution rates every five years. Starting January 1, 2016, indexing may be provided for the following five years only if the funded ratio is at least 100% as at December 31, 2014 and to the extent that the adjustment does not cause the funded ratio to fall below 100%. This cycle will repeat every five years.

In addition, for new hires on or after April 6, 2010, the Rule of 80 is changed to Rule of 85 (with minimum age 55) and the 66 2/3% Survivor Benefit changes to 60%.

Funded ratios as of December 31 of each year:

Teachers' Pension Plan
2003- 81.0%
2004- 81.7%
2005- 93.6%
2006- 96.8%
2007- 91.0%
2008- 70.8%
2009- 75.9%
2010- 78.7%

Public Service Superannuation Plan
2003- 85.8%
2004- 85.2%
2005- 88.0%
2006- 89.6%
2007- 83.5%
2008- 64.1%
2009- 69.3%
2010- 100.3

Where do we want to go?

To reach and/or maintain a 100 percent funded ratio for both the PSSP and TPP.

Measure: Internal (Government) access to required IT programs to deliver services

What does the measure tell us?

The measure describes the provision of access and services to our central IT program.

Where are we now?

Targets in Corporate Information Systems (CIS) will evolve over one fiscal year as projects are rolled out and completed. The overall target, short- and long-term, is to provide and maintain required IT systems as government needs evolve.

In 2010-2011, building on previous initiatives, the department further streamlined service delivery by providing a self-service portal that acts as one point of contact to employees and managers for access to financial and human resource information.

Quality assurance processes continue to be supported by a tracking system that documents client service issues and yearly audits are undertaken to measure compliance with standards and policies that safeguard customer data.

In terms of skill development, vacancies in the CIS Division continue to be filled with emerging technologies in mind so that staff can easily assume new tasks when systems, certifications and standards are rolled out.

Where do we want to go?

Improving front-line client support is an on-going, long-term goal for the department's central IT program. Continuing with initiatives already in operation—improving audit requirements and results; low vacancy rate to ensure capacity in client service—will be key.

Measure: Centralization of payment production and more consistent processes

What does the measure tell us?

Areas where services have been either centralized with standardized controls and processes or updated for improved controls and efficiencies.

Where are we now?

The 2010-2011 target, as stated in the department's 2010-2011 Statement of Mandate, was "implementation of payment production for Labour Market Development Agreements in summer 2010; migrate payment production for court ordered payments from Justice".

Much centralization has been completed including major assistance program payments for Community Services, rebates and refunds from Service Nova Scotia and Municipal Relations programs, health programs for caregivers at home, some payments for Labour and Workforce Development programs and payments to School Boards.

Staff has been merged into one group providing payments for payables, payroll and pensions to provide better coverage for functions. More staff resources and training are needed to get this group working at intended capacity.

Where do we want to go?

There are several areas where the department plans to assume centralization:

- Full payments service to Labour Market Development Agreement as the bulk of program payments are taken over from the federal government.
- Service Nova Scotia and Municipal Relations program case management payments arising from IFTA.
- Centralization of payments for Maintenance Enforcement Program.
- Expanded enrolments for payments by direct deposit.
- Business Enhancements Project to provide forms and data approvals on line to make certain tasks more efficient and standardized across government.

Also, there is a move toward centralization of Accounts Receivable (AR) into SAP AR and more rigorous collections efforts by partnering with SNSMR Collections group.

Measure: Enhanced risk management of corporate credit card system

What does the measure tell us?

Areas where services have been either centralized with standardized controls and processes or updated for improved controls and efficiencies.

Where are we now?

The 2010-2011 target, as stated in the department's 2010-2011 Statement of Mandate, was to "implement revised credit card policies and procedures, and deliver user training".

Corporate credit card policies have been revised and are being formatted for approval and release.

Where do we want to go?

The new policies and procedures will be rolled out to government with supportive training.

Measure: Positive climate for investment and economic growth- overall corporate income and capital tax rates

What does the measure tell us?

Corporate income and capital tax rates measure the overall marginal taxes on Nova Scotia businesses. These rates are one measure of the business environment in Nova Scotia. This measure tells us the general tax rates applied to business income and to business capital investments. Comparing our tax rates with other jurisdictions is an indicator of this facet of Nova Scotia's overall competitiveness.

Where are we now?

The 2010-2011 target, as stated in the department's 2010-2011 Statement of Mandate, was to reduce the Large Corporations Tax (large non-financial corporations) rate to 0.05 percent. As of March 31, 2011, the rate stood at 0.10 per cent; however, a pre-determined schedule will see the rate drop to 0.05 per cent as of July 1, 2011.

A comprehensive outline of the current Province's tax system can be found at

http://www.gov.ns.ca/finance/site-finance/media/finance/Overview_of_NS_Tax_System_2011-04-04.pdf

Business Tax Rates for 2010 Tax Year

	NS	NB	ON	AB	Federal
General income tax	16.0%	11.5%	11.75%[a]	10%	18.0%[c]
Small business income tax	4.5%	5.0%	5.0%	3.0%	11.0%
Large Corporations Tax (Non-financial capital tax)	0.10%[d]	0%	0.225%[b]	0%	0%
Corporations Capital Tax (Financial capital tax)	4.0%	3.0%	0. 45-0.675%	0%	1.25%[e]

a - Ontario offers a 1.75% credit for manufacturing and processing profits, reducing the effective rates for these activities to 10%.
b- In the 2008 Budget, Ontario eliminated the capital tax for companies in manufacturing and resource industries, effective January 1 2008. The 2007 Budget accelerated the elimination of the Capital Tax for all industries to 0% by July 1, 2010; 18 months sooner than originally planned.
c - The Fall 2007 Economic Update announced the plan to reduce corporate income tax to 15% by 2012.
d - Nova Scotia's Large Corporations Tax continues to be reduced annually towards phase-out by July 1, 2012.
e- The capital tax applies to taxable capital employed in Canada exceeding $1 billion.

Where do we want to go?

Phasing out the Large Corporations Tax (LCT) by 2012 continues, keeping the commitment of the 2006-2007 budget.

The government's plan provides a prudent balance between a reduction in business tax and the need for revenues to support public programs.

The Department of Finance monitors and assesses overall taxes of Nova Scotia corporate taxpayers and maintains a close working relationship with key stakeholders to ensure tax policy decisions are made with a full appreciation for the key trends and issues.

In 2010 the province lowered the small business corporate income tax rate from 5.0 per cent to 4.5 per cent, recognizing the importance of small business to the Nova Scotia economy. Canadian Controlled Private Corporations (CCPCs) with taxable capital of less than $10 million can apply the rate on the first $400,000 of active business income. There will be a further reduction of this rate in 2011-2012, from 4.5 per cent to 4.0 per cent.

More information on Nova Scotia's tax system can be found at

http://www.gov.ns.ca/finance/site-finance/media/finance/TaxReviewDiscussionPaper.pdf

Measure: Positive climate for investment and economic growth- personal income tax rates

What does the measure tell us?

Personal income tax rates and brackets tell us how much provincial tax individuals in different income ranges would have to pay on their next dollar of taxable income. This measure allows us to compare the levels of taxation among provinces at different income levels. Personal income tax rates do not measure the overall level of taxes because they ignore how much taxable income Nova Scotians actually earn and how it is distributed.

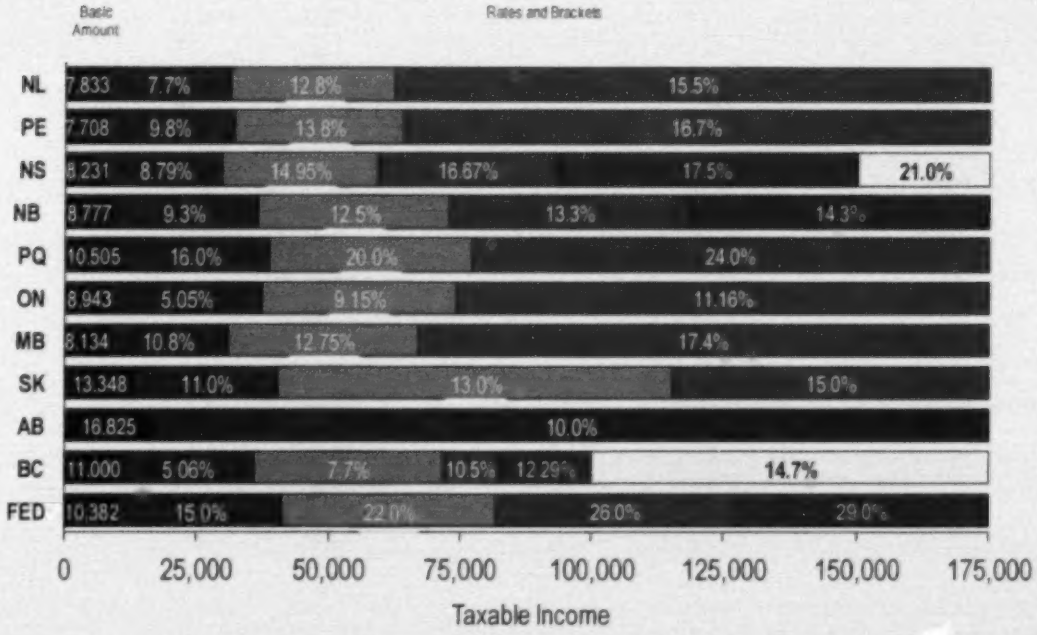
Where are we now?

The long-term target, as stated in the department's 2010-2011 Statement of Mandate, was to provide a tax regime that is competitive. There was no specific personal income tax target for 2010-2011.

Nova Scotia's personal tax rates are consistent with other provinces in Atlantic Canada, but higher than elsewhere in Canada. In 2010, Nova Scotia eliminated the 10 per cent surtax imposed on individuals with personal income taxes payable of more than $10,000. The surtax was replaced by a fifth income tax bracket of 21 per cent applicable to taxable income exceeding $150,000.

The province has increased the Basic Personal Amount by $250 per year over the past four years – a total increase of $1,000 or 13.8 per cent. A corresponding increase has been made to the non-refundable block of credits as well. Most other provinces increase their basic amounts and tax brackets every year. In comparison, the Alberta tax system charges a 10 per cent flat tax on incomes above the 2009 basic amount of $16,825.

Personal Income Tax Rates in Canada (2010)



Effective January 1, 2010, the Equity Tax Credit rate was increased from 30 per cent to 35 per cent and the maximum annual credit also increased from $15,000 to $17,500. The Equity Tax Credit and the Labour Sponsored Venture Capital Tax Credit were both extended by two years to December 31, 2011.

Commencing in 2011, the province will provide a refund program for residents who are in receipt of the Guaranteed Income Supplement (GIS) – a federal transfer for low-income seniors – and who paid provincial personal income taxes in the 2010 taxation year.

As it is mentioned above, a comprehensive report outlining the Province's tax system can be found at

http://www.gov.ns.ca/finance/site-finance/media/finance/Overview_of_NS_Tax_System_2011-04-04.pdf

Where do we want to go?

The department will continue to monitor and assess the overall tax level while examining the socioeconomic demographics of Nova Scotia tax payers and

maintaining a close working relationship with key stakeholders to ensure tax policy decisions are made with a full appreciation for the key trends and issues:

http://www.gov.ns.ca/finance/site-finance/media/finance/TaxReviewDiscussionPaper.pdf

Measure: Fair and affordable auto insurance

What does the measure tell us?

The measure tells us Nova Scotia residents are receiving appropriate, fair and affordable automobile insurance.

Where are we now?

The 2010-2011 target, as stated in the department's 2010-2011 Statement of Mandate, was to-be-determined.

Average earned premium[1]:

2009- $804.37
2008- $808.50
2007- $816.57
2006- $824.58
2005- $865.48
2004- $787.37
2003- $945.41
2002- $799.57

The government announced an independent review of the automobile insurance system on Nov. 30, 2010, to ensure Nova Scotians have access to appropriate coverage and premiums that are fair, stable and affordable. An independent consultant collected research, met with stakeholders and conducted a public consultation. A final report was submitted to government including recommendations for auto insurance reforms.

Where do we want to go?

The government will continue with the automobile insurance review and anticipates this will further enhance the established criteria of ensuring the Nova Scotia automobile policy is appropriate, fair and affordable.

Government decisions regarding possible auto insurance reforms will be made based on both the final report and the actuarial work being done by the UARB. The implementation of auto insurance reforms will commence this fall. Amendments to the *Insurance Act* are expected as well as the introduction of new regulations.

[1] Average premium earned by insurance companies per insured vehicle in the Province.

Measure: Staff engagement as measured in "How's Work Going?" Survey

What does the measure tell us?

This measure tells the proportion of department staff that feel connected and involved with their job and the organization.

Where are we now?

The target for the 2011 Survey, as stated in the department's 2010-2011 Statement of Mandate, was to continue to surpass corporate results.

The corporate survey takes place every two years. In 2009, the department improved its employee engagement score by 13 points over its 2007 performance, increasing from 62 per cent to 75 per cent.

Where do we want to go?

Improve and continue to surpass the corporate average results.

Measure: Percentage of staff with orientation training in Violence Prevention

What does the measure tell us?

This measure tells us the number of staff who participated in the orientation training and the extent to which the department promotes a safe and healthy workplace.

Where are we now?

The 2010-2011 target, as stated in the department's 2010-2011 Statement of Mandate, was to have 100 per cent participation.

In 2010-2011, 43 individuals, or approximately 25 per cent of department staff participated in the training.

Where do we want to go?

Increase the rate of participation to ensure that staff is knowledgeable in violence prevention mechanisms and resources.